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Ms. Carlotta Stauffer, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 140180-EQ - Petition for approval of amendment to extend term of negotiated renewable energy power purchase contract with Rayonier Performance Fibers, LLC, by Florida Public Utilities Company.

Dear Ms. Stauffer:

Enclosed for filing, please find the original and seven (7) copies of FPUC's Responses to Commission Staff's First Data Requests (redacted). Under separate cover, the Company is also submitting a Request for Confidential Classification for portion of its Responses.

As always, please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

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Docket No. 140180-EQ: Petition of Florida Public Utilities Company for Approval of Amendment to Extend Term of Negotiated Renewable Energy Power Purchase Contract with Rayonier Performance Fibers, LLC.

**FLORIDA PUBLIC UTILITIES COMPANY'S RESPONSES
TO STAFF'S FIRST DATA REQUEST**

For questions 1-2, please refer to FPUC's petition at page 3, section 6, where FPUC asserts that the contract between it and Rayonier has been in effect for two years and no operational issues have been encountered. Also refer to pages 3-4, section 7, where FPUC asserts that the generating unit will use displaced high pressure steam to potentially increase the committed capacity available to FPUC, thereby increasing the value of the purchase agreement for FPUC's customers.

1. Please describe or explain how an increase in the committed capacity will affect the cost-effectiveness of the contract between the parties. As part of the response, please provide a table showing projected increases in capacity and payments (both in nominal and net present value amounts) to be made to Rayonier in the event the displaced steam does result in a higher output from the generating unit.

Company Response: The increase in committed capacity from Rayonier will allow the displacement of additional capacity purchases from the FPU wholesale energy provider, as noted in the Company's response to data request No. 20 in Docket No. 120058-EG. The cost associated with the capacity/energy purchases from Rayonier are less than the comparable purchases from the wholesale energy provider and therefore provide a cost effective benefit to FPU customers.¹

See Exhibit A (attached)(Confidential) which describes the cost effectiveness.

2. Will an increase in the committed capacity have any impact on the transmission facilities currently being utilized to deliver the energy from Rayonier to FPUC? If so, please explain in detail what impacts are anticipated and the costs, if any, of such impacts.

Company Response: No. The increase in committed capacity from Rayonier will not have an impact on the transmission facilities currently interconnecting Rayonier to the FPU system. There are plans, based upon the original PPA, to relocate the transmission facilities from an inaccessible, marshy area to a more easily accessible road right-of-way. This new transmission line will conform to the Company's storm hardening standards, will be readily accessible, and will greatly improve the overall system reliability should a storm impact the area.

¹ For purposes of clarification, FPU notes that the Amendment that is the subject of this Docket does not alter the committed capacity under the Agreement. The only change reflected by the Amendment is an extension of the term of the Agreement through September 2036.

3. Please refer to footnote 2 on page 4 of FPUC's petition, which represents that FPUC receives an average of 1.5 MW annually from Rayonier, while the committed capacity is set at 3.0 MW and the contract allows Rayonier the option of increasing the committed capacity to 5.0 MW. However, Section 7(a) on page 16 of the original contract provides that the committed capacity "in no event shall be less than 1.700 MW..." Please explain why the average received capacity appears to be below the minimum capacity required by the contract.

Company Response: The reference to "an average of 1.5 MW annually" in the footnote was in error. The original Agreement contemplates that "committed capacity" will be within a range of 1.7 MW to 3.0 MW, with an option for Rayonier to increase the upper range to 5.0 upon notice to FPU. While the 1.7 MW committed capacity is the target for the purposes of operating the unit, it is perhaps of greatest importance – in terms of operation of the Agreement – for evaluating and determining the payments associated with the cogeneration facility. It is important to recognize that the primary goal for this unit is to provide energy to the mill in order to maximize the overall production. The production of additional, low cost, renewable energy to FPU customers is a secondary, albeit efficient and cost-effective, purpose of the unit. As such, consistent with the unit's designed purpose, the Agreement is not for firm capacity. The Agreement even recognizes, at Section 7(b), that the Seller retains the discretion to determine the amount of energy and capacity it will supply to FPU and provides that Seller will not be deemed in default for failure to provide the Agreement amounts.

Based on this operating philosophy, the parties determined that a reasonable, target operating expectation would be 1.7 MW and to date, the facility has tended to provide capacity at or near that level. As described in #5 below, there is an "on peak" [REDACTED] and "off peak" [REDACTED] capacity factor that is also incorporated into the determination of payments. This capacity factor allows for reasonable maintenance periods and some unexpected down time. Based on the payment results for 2013 and 2014 where payments included both energy and capacity payments for the majority of the months, it appears the 1.7 MW committed capacity is reasonable. In fact, during 2013, Rayonier provided approximately 18,600 MWh's of energy, which exceeded the estimated amount and is on track to exceed estimates again in 2014. In those months in which the committed capacity level was not reached, FPUC and its customers were protected by the Agreement terms through penalties in the form of reduced payments made to Rayonier during those months.

4. Please explain the Utility's security against nonperformance by Rayonier, or alternately, provide the section of the Agreement in which this topic is addressed.

Company Response: The Agreement contains performance requirements for the Seller, as also noted in the Company's response to data request No. 21 in Docket No. 120058-EQ. Section 10.4 of the original, underlying Agreement contains these requirements. Although the Agreement is not for firm service, the Company has negotiated terms and conditions that are intended to provide proper incentives for Rayonier to sell as much energy as possible to the Company, because the more energy FPUC receives from Rayonier under this Agreement, the greater the savings that will be enjoyed by FPUC's customers. These same Agreement terms, however, provide security against "non-performance" through the structure used to calculate payments made to Rayonier for the energy and capacity provided. The performance requirements ensure that, when Rayonier is unable to sell a minimum level of energy under the terms of the Agreement, the price that the Company pays for the energy actually provided is reduced to the Energy Price in lieu of the All-In Price. To be clear, the Company only pays for the energy delivered under the Agreement – there are no "pre-payments" under the Agreement. Thus, the performance requirements only impact the price that the Company will pay, not any minimum quantity required to be provided.

Specifically, the energy payment is calculated based on the total kilowatt-hours provided multiplied by the energy cost factor which is included in the Agreement. The capacity payment is determined based upon total kilowatt-hours provided, times the capacity cost payment which is included in the Agreement, assuming the capacity factor requirements have been satisfied.

Should the capacity factors be satisfied, the All-In Price will be attributed to all kilowatt-hours provided. If the capacity factor requirements have not been satisfied, only the energy price will be used. See below for an example of how non-performance results in a reduction in payments.

Example:

Total Kilowatt-hours Provided – 1,000,000 kWh's

Total On Peak Kilowatt-hours Provided – 390,000 kWh's

Total Off Peak Kilowatt-hours Provided – 610,000 kWh's

Committed Capacity – 1.7 MW

On Peak Hours Available – 233

Off Peak Hour Available – 465

On Peak Capacity Factor [REDACTED]

Off Peak Capacity Factor – [REDACTED]

On Peak Requirement:

- 233 hours * (1.7 MW * 1000) [REDACTED] = [REDACTED] kWh minimum requirement

Off Peak Requirement:

- 465 hours * (1.7 MW * 1000) [REDACTED] = [REDACTED] minimum requirement

Results:

- Actual On Peak Provided Kilowatt-hours exceeded the minimum requirement which allows payment of the energy and capacity amounts.
- Actual Off Peak Provided Kilowatt-hours did not exceed the minimum requirement which allows only the payment of the energy amount.

As noted in Order No. PSC-12-0380-PAA-EQ at page 4, failure to maintain the agreed capacity factor will simply result in reducing the overall monthly payments to Rayonier. Moreover, because no early payments are being made throughout the life of the Agreement, and monthly pricing is measured in rate of energy delivered, additional performance security is not necessary.

5. Please provide the capacity factor on which payments under the contract are based, and describe or explain how that figure is calculated.

Company Response: The Agreement requires certain capacity factor performance based upon “on peak” and “off peak” times. The capacity factor required during on peak times is [REDACTED] while off peak times require an [REDACTED] capacity factor. The on peak and off peak times have also been differentiated based on certain seasons of the year. These seasons include Summer, Winter and November and each have differing on peak and off peak hours. The capacity factors, on/off peak times and the seasons were derived through a study of the FPU Northeast Division load profile, a comparison with other similar contracts and discussion with the mill/equipment providers regarding typical expectations of the up time of the equipment. Based on the information available and actual results since the system was placed in service, the capacity factors are within an acceptable, appropriate range.

6. Please refer to Section 9 on page 4 of the petition. Here, FPUC states that Attachment B contains projected annual savings “as compared to the relevant purchased power agreement between FPUC and JEA, as well as the agreement between FPUC and Gulf Power...” However, the attachment does not appear to provide any information regarding Gulf Power. Please clarify this apparent inconsistency, or alternately, provide a corrected copy of Attachment B.

Company Response: The sentence referenced is a misstatement. The reference to the FPUC and Gulf Power agreement was intended to indicate only that the Company

believes that savings inure both when one considers only the JEA contract, as well as when the contract with Gulf Power is considered. However, Attachment B was only contemplated to reflect the more specifically quantifiable savings associated with the JEA contract, particularly since the initial filing was made prior to the Commission's approval of the consolidated fuel factors for the Company in Docket No. 140001-EI.

7. Please refer to Attachment B to the Amendment No. 1, which shows the projected payment for the years 2016-2020, and for years 2025, 2030, and 2036. Please state the reason for not providing contract payment data on a yearly basis, or alternately, provide the projected payments for each year of the contract term.

Company Response: Exhibit B (attached)(Confidential) shows the annual projected payments for all years within the Agreement.

PROJECTED NET BENEFITS FROM AMENDED CONTRACT BETWEEN FPUC AND RAYONIER

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	
Wholesale Costs of Power Including G&T (\$/MWh)																						
Projected JEA Contract Price*	[REDACTED]																					
Price of Rayonier Contract	[REDACTED]																					
Margin, Rayonier Unit	[REDACTED]																					
* I.e., Avoided Cost w/capacity																						
Capacity Gain, Rayonier (MW)	[REDACTED]																					
Capacity Factor	[REDACTED]																					
Net Benefits arising from Amended Contract between FPUC and Rayonier																						
Total:	[REDACTED]																					
Discounted Net Benefits arising from Amended Contract between FPUC and Rayonier																						
Total (NPV):	[REDACTED]																					
Social Discount Rate	[REDACTED]																					

PROJECTED NET BENEFITS FROM AMENDED CONTRACT BETWEEN FPUC AND RAYONIER

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	
Wholesale Costs of Power Including G&T (\$/MWh)																						
Projected JEA Contract Price*	[REDACTED]																					
Price of Rayonier Contract	[REDACTED]																					
Margin, Rayonier Unit	[REDACTED]																					
* i.e., Avoided Cost w/capacity																						
Capacity Gain, Rayonier (MW)	[REDACTED]																					
Capacity Factor	[REDACTED]																					
Net Benefits arising from Amended Contract between FPUC and Rayonier																						
Total:	[REDACTED]																					